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SUBJECT: MITTAL STEEL RE-AWAKENS ECONOMIC PATRIOTISM

SENSITIVE BUT UNCLASSIFIED, NOT FOR INTERNET

Ref: A) Luxembourg 31 B) Paris 357

1. (SBU) SUMMARY: French politicians, caught off guard at first, are finding it hard to resist evoking "economic patriotism" in response to Mittal Steel's surprise hostile takeover bid of Arcelor. After Mittal preemptively assured it had no job cuts in mind, the latest salvos have shifted to disingenuous criticism regarding a perceived lack of an industrial plan. END SUMMARY.

A Week of Announcements

2. (U) Immediately after Mittal Steel's surprise takeover offer for Arcelor (ref A), Finance Minister Thierry Breton led off initial negative GOF reaction, noting he was "shocked" by the way Mittal had announced its offer. Mittal rushed to correct that "faux pas" by scheduling its first meeting on Monday January 30, among many others the first week after its announcement, with Breton. At a later press conference, Indian-born CEO Lakshmi Mittal said he had explained the reason to Breton: a leak about the offer had forced the publicly traded company to go completely public. Mittal also stressed he had assured Breton that Mittal did not intend to close any plants or cut jobs.

3. (U) Prime Minister Dominique de Villepin in a radio interview on January 31 criticized the takeover bid, saying it was bad form because it was "very" hostile, and bad business because, to his knowledge, it lacked any industrial plan. He evoked his "economic patriotism" agenda (ref B), describing it as requiring all actors, including shareholders and business leaders, to mobilize. Noting that President Chirac would meet with Luxembourg PM Juncker on February 1, he said what he wants is to quickly develop a European industrial policy, to create great French, and European, industrial champions. He argued the Americans, Chinese, the Japanese, etc. already practice economic patriotism, and he called for collective responsibility to face the challenge. He asserted that the government role is to stand beside the movement for industrial champions with a true policy of "economic intelligence," which France is already doing. Neither President Chirac nor Villepin made any comments after the meeting with Juncker regarding Mittal.

4. (U) We have seen press reports that the Indian Secretary of Commerce while in London on February 2 expressed his concerns about French opposition to the Mittal bid, and announced the Indian government would be looking closely at future GOF pronouncements for anti-Indian bias. Other press reports indicate varying degrees of official concern about the bid.

5. (U) On February 2, Finance Minister Breton sought to correct what some may have viewed as France's protectionist stance, saying he has nothing against India and admitting that it is up to Arcelor's shareholders to decide whether Mittal has an industrial plan (although adding he still has not seen evidence of one). In his strongest statement to date, Breton published a letter in the Monday edition of the Financial Times (released on Sunday, February 5), saying that protectionism has no place in modern economic governance. The PM, on Europe 1 radio Sunday night, affirmed that the State has a responsibility to check the validity of the transaction, indicated he still wants to know more, and urged continued "mobilization".

6. (U) Arcelor, for its part, immediately rejected the offer. Later comments by CEO Dolle that if Mittal made another offer, the board would of course consider it, prompted one analyst to comment that the issue is neither

political nor economic. What matters is the price.

Regulatory Responses

17. (U) French securities regulator AMF (Autorite de Marches Financieres) decided on February 3 to postpone deciding whether it would assert jurisdiction to review the proposed takeover, announcing simply that it recognized the probable primacy of Luxembourg law but that it would consult with its counterparts in Luxembourg, Spain, and Belgium. Although neither company is French (Mittal headquarters are in Rotterdam, Arcelor in Luxembourg), both companies are traded on the Paris-based Euronext exchange. Moreover, France has not yet implemented the EU takeover directive, which would have ruled out AMF review. The AMF on February 2 released a brochure on EU financial sector directives, indicating it expected France would transpose the takeover directive into national law before May 20, 2006.

18. (U) Mittal Steel presumably will be able to avoid GOF review under its new "strategic sectors" decree (ref B), since it can take advantage of the carve-out for companies based in the European Union, thanks to its Rotterdam headquarters.

COMMENTS

19. (SBU) The evolution of the French position could be due to differences between the Prime Minister's office and the Finance Ministry, the former being much more insistent about its economic patriotism agenda. Perhaps one explanation for the hemming and hawing is French concern about outsourcing or "delocalization." On the one hand, the GOF nod to individual responsibility in creating industrial champions (as opposed to governmental responsibility) is encouraging. On the other hand, the PM's elaboration of the GOF role in securing "economic intelligence," and an insistence by the AMF to review the bid, cast an ominous shadow of state interference in the French concept of an open investment regime. The latest charge that Mittal lacks an industrial plan is, in this context, striking for its ambiguity. (We suspect that by "industrial plan", the GOF wants to know how French jobs will be preserved.) President Chirac's silence is also striking, although it should be noted he plans to travel to India on February 19.

110. (SBU) Alternatively, the evolution in the GOF position could be due to the problem of fitting a round peg in a square hole: the Mittal bid is not the best test of economic patriotism. While the Luxembourg and Belgium governments are shareholders of Arcelor, France is not. Mittal is a company based in the Netherlands with plants throughout Europe (including France), is traded in Europe (and New York), and is 97% controlled by a family that claims London for its home. If the acquisition succeeds, Mittal will become a larger European company. If the French were truly interested in creating European champions, not just French ones, it seems curious that the takeover bid should have prompted GOF opposition.

STAPLETON#